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Voeten, Jaap; van Uden, A.

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External Knowledge Sources and the Cost and Benefits of Innovation in Developing Countries

Policy brief DFID/Tilburg University research: *'Enabling Innovation and Productivity Growth in Low Income Countries' (EIP-LIC)*.

<http://www.tilburguniversity.edu/dfid-innovation-and-growth/>



Annelies van Uden and Jaap Voeten (Radboud University Nijmegen)

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The importance of external knowledge sources to firm-level innovation has long been underlined by economic and management researchers as well as business practitioners. Despite this 'open' innovation's increasing prominence in both practice and research, the role of the context in which open innovation in developing countries is conducted is not well investigated. A team of researchers from Radboud University Nijmegen carried out a study on external knowledge sources with explicit consideration of context when considering the relationship between openness and innovative performance in 5 developing countries. The study is part of the DFID-funded research project entitled *'Enabling Innovation and Productivity Growth in Low Income Countries (EIP-LIC)'* implemented by Tilburg University and Radboud University Nijmegen in The Netherlands. The original working paper of the study is entitled *'External Knowledge Sources and the Cost and Benefits of Innovation in Developing Countries'* (2015) by Annelies van Uden, Joris Knobben and Patrick Vermeulen¹. This policy brief summarizes the research and outcomes of the study and discusses several policy implications.

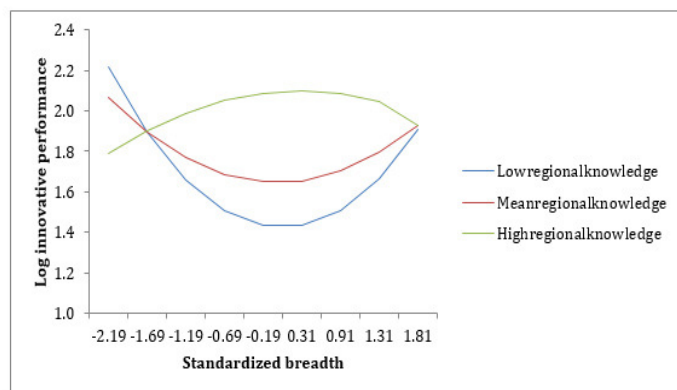
Research findings

Based on an analysis of 683 firms in five developing countries, the team found that regional knowledge availability influences the extent to which greater openness to innovation leads to more firm-level innovation. Therefore, the study indicates that this relationship *is* in fact contingent on the context in which the firm is active.

In regions with high knowledge availability, the relationship between openness and innovation is similar to the one found in Western countries. However, the study found that firms located in regions where regional knowledge availability is lower, are more innovative when they invest far less in efforts to learn from outside the organization, indicating that in some environments it may be better for a firm to be closed for innovation. These results contrast with most previous research about open innovation, which highlighted the benefits and the positive relationship with innovative performance.

In regions with less knowledge available, a very open innovation strategy does not seem to have a positive effect on innovation and it can be better to focus on fewer, deeper relationships rather than a very broad engagement with many other actors. The study is important for the open innovation literature because it shows that regional knowledge availability strongly influences the relationship between openness and innovation.

¹ The paper is accessible at the project's website (<http://www.tilburguniversity.edu/dfid-innovation-and-growth/>)



Search breadth at different levels of regional knowledge availability

Policy implications

External sources provide a firm with new ideas to support greater innovation. However, the study suggests that if external knowledge sources are lacking, openness has a less favourable effect. The study provides evidence that knowledge availability is indeed a regional characteristic that is of significant importance for the value of openness.

In fact, the research results indicate that in some cases openness could even be a harmful strategy for firms, which has to be acknowledged by policy makers as well. The effect of regional knowledge availability can result in a negative relationship between external search breadth (the effort the firm puts into engaging with a range of possible external knowledge sources) and innovation. In regions where knowledge availability is lower, being open has more costs than benefits. These findings support some recent literature that stresses the downsides of openness.

Consequently the regional availability of knowledge should be carefully considered in (open) innovation policies. Openness should not be pushed in environments where external knowledge availability is lower. Especially in the context of developing countries, the innovation policies and strategies promoting openness could be much less effective than in developed countries.

Promoting the knowledge availability is another policy avenue in pursuing open innovation. Typically, education, information infrastructure and generic economic development policies are prerequisites in a regional context.

Validating the policy implications on the ground, the qualitative studies of EIP-LIC, in particular Kenya and Ghana, confirm that owners and managers who were less open enjoyed more benefits in the process of trying and introducing new technology and products. Several company owners learned this the hard way – “they [competitors] came to tap my ideas. In one event the students from a university in Accra took my idea and design for a machine.”

This policy brief is the product of a research project funded by the British Department for International Development (DFID) entitled ‘Enabling Innovation and Productivity Growth in Low Income Countries’ (EIP-LIC). The project is implemented by Tilburg University (The Netherlands) and explores SME-level innovation in Low Income Countries (LICs) and factors that contribute to or limit its diffusion. Data collection and research collaborations take place in 10 African and Asian countries (Bangladesh, Ethiopia, Ghana, India, Indonesia, Kenya, Tanzania, South Africa, Uganda and Vietnam). The policy implications of research are presented in a series of policy briefs, targeted at a broad audience of policy makers within governments, business and development agencies with a view to quantifying research outcomes and promoting evidence-based policy making.